

DAY THREE SESSION TWO

Understanding Methods of Sale

Municipal Debt Essentials

Accessing the Market

October 28, 2016

Presentation by:

Marc Hughes, Managing Director

Jay Murphy, Managing Director



Methods of Sale

1

Municipal bonds are sold either through a competitive process or through negotiated sale

Competitive Sale

- Municipality takes bids at a certain time on a predetermined date
- Underwriter offering best (highest) price wins
- Typically based on TIC and often within defined parameters

Negotiated Sale

- Underwriter often selected through RFP
- Municipality, in conjunction with their municipal advisor, and underwriter negotiate a price for the bonds on a per-maturity basis

Private Placements and Direct Loans

2

In addition to bonds sold through negotiated or competitive sales, municipalities can also incur debt through direct loans from banks or other financial institutions as well as direct placements

Direct Loans

- Municipality negotiates the terms and interest rates directly with a bank
- Usually simpler than a public offering
- Typically comes with higher interest rates

Private Placements

- Can be marketable securities (with restrictions) or direct loans from financial institutions
- Often associated with smaller transactions or riskier or more complex credits

Competitive Sales

3

In a competitive bid, the municipality accepts bids, typically through an electronic platform, at a certain time on a predetermined date and the underwriter offering best (highest) price wins the bonds

Advantages

- Multiple potential bidders
- Generally between 3-10 bidders
- Best price on the bid date wins
- Avoids potential “politics”
- Higher quality credits receive more attention

Disadvantages

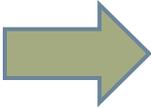
- Fixes the sale to a set date
- More difficult for “story” bonds
- Limited pre-marketing period
- No retail order period
- More difficult to respond to changing market conditions

Competitive Underwriting Process

4

In a competitive bid, the underwriter takes a slightly different approach to preparing a bid than he does with a negotiated sale

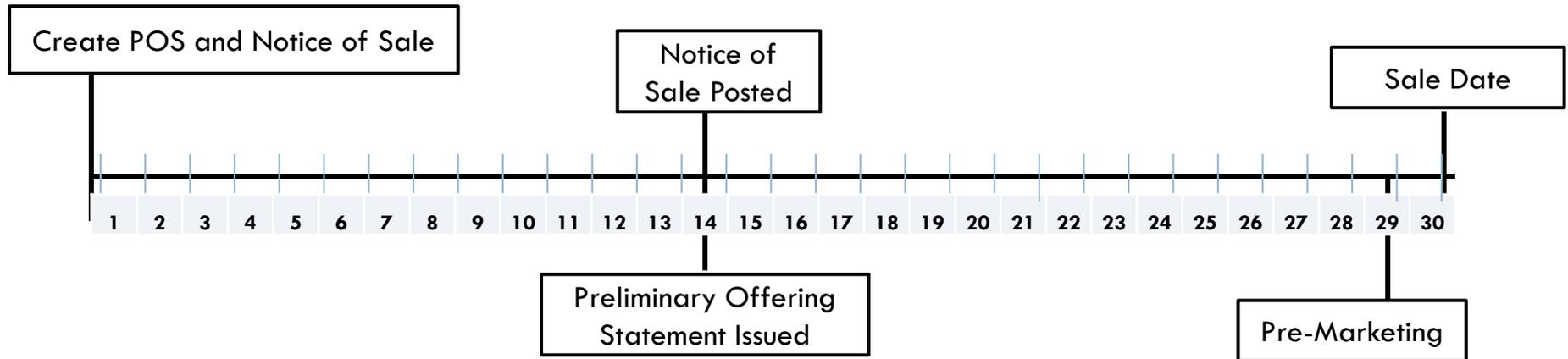
CONSIDERATIONS:

- In a rising interest rate environment, caution often prevails
 - In a declining interest rate environment, underwriters may be more aggressive
- 
- Limited time to pre-market the issue
 - Looking for “anchor” buyer to set scale
 - Create an appealing coupon structure
 - Evaluation of risk versus reward
 - Capital commitment

Competitive Sales: Timeline

5

Example Timeline for Competitive Sales Transaction
Once the Transaction has been Structured and Rated



Competitive Calendar

6

- Underwriters have a wide variety of issuers and issues to choose from
- An issuer's municipal advisor should be proactive in reaching out to underwriting firms

1) Export to Excel		2) Edit Columns		Competitive Calendar						
Date	Time	Issuer Description	State	Amt (MM)	Tax	Senior Manager	Int Cost	Status	Type	*
11) 10/17/2016	11:30	MERIDEN -A	CT	68.240	N	BANK OF AMERICA		AWARDED	COMP	*
12) 10/18/2016		FLORIDA ST BOE-PECO-	FL	140.380	N	18 HOUR NOTICE			COMP	*
13) 10/18/2016		FLORIDA ST DOT TURN	FL	137.340	N	18 HOUR NOTICE			COMP	*
14) 10/18/2016	10:00	SUFFOLK CO WTR AUTH	NY	56.440	N	24 HOUR NOTICE			COMP	*
15) 10/18/2016	10:15	SUFFOLK CO WTR AUTH	NY	78.335	N	24 HOUR NOTICE			COMP	*
16) 10/18/2016	10:15	SUFFOLK CO WTR AUTH	NY	40.000	N	24 HOUR NOTICE			COMP	*
17) 10/18/2016	10:30	UAB MEDICINE FIN AUT	AL	65.215	N				COMP	*
18) 10/18/2016	11:00	OSSEO AREA ISD #279	MN	51.650	N				COMP	*
19) 10/18/2016	11:00	SUFFOLK CO -SE	NY	52.960	N				COMP	*
20) 10/18/2016	11:00	WAKE CNTY -REF -A	NC	162.215	N				COMP	*
21) 10/18/2016	11:30	CALIFORNIA ST -TXBL	CA	255.000	T				COMP	*
22) 10/18/2016	11:30	MINNESOTA ST -REV -R	MN	92.150	N				COMP	*
23) 10/18/2016	11:30	NEVADA STATE	NV	33.635	N				COMP	*
24) 10/18/2016	12:15	CALIFORNIA ST -	CA	815.005	N				COMP	*
25) 10/18/2016	13:00	CALIFORNIA ST	CA	575.755	N				COMP	*
26) 10/19/2016	10:30	CINCINNATI - C	OH	54.915	N				COMP	*
27) 10/19/2016	10:30	GEORGIA ST -REF -F	GA	504.210	N				COMP	*
28) 10/19/2016	11:00	CLARK CO -SALES TAX	NV	36.275	N				COMP	*
29) 10/19/2016	11:00	GEORGIA ST -REF -E	GA	376.815	N				COMP	*
30) 10/19/2016	11:00	NANTUCKET	MA	38.913	N				COMP	*
31) 10/19/2016	11:00	SHERIDAN SD #37	AR	31.215	N				COMP	*
32) 10/19/2016	11:30	CLARK CNTY REVS	NV	43.365	N				COMP	*
33) 10/19/2016	11:30	SAN FRANCISCO CO TX	CA	76.025	T				COMP	*

New issues: Phone: (609)279-3250 Fax: (800)395-9403 Email: newcsni@bloomberg.net
 Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance L.P.
 SN 726656 H367-4313-1 17-Oct-16 10:30:49 PDT GMT-7:00

Competitive Bidding

7

- For example, Mesirow Financial bids on between 5 to 10 transactions per week across the country
- We primarily look at size, credit quality and structure to determine which transactions we bid on
- We also consider the calendar, market tone and our inventory

Sale Date	PAR (000's)	ISSUER	State	Ratings	Sale Time(EST)	Platform	MAT	Avg Life (Years)
9/26/16	\$23,285	Kaukauna Sch Dist ULT GO	WI	A+	11:00	Muni-A	2017-26	6.2
9/27/16	\$32,875	Indian Prairie CUSD #204	IL	AA+	11:00	Muni-A	2016-23	5.7
9/28/16	\$42,875	Glenbrook Twp	IL	AAA/AA	11:00	muni-A	2017-24	4.11
9/28/16	\$75,990	Riverside Trans	CA	NR/AA+/AA	12:00	Parity	2017-29	7.3
9/28/16	\$35,660	Johnson Cty ULT GO	KS	AAA	1:00	Parity	2017-36	12
9/19/16	\$16,530	W Windsor ULT GO	NJ	AAA	11:15	Muni-A	2017-29	7.4
		Bank Qualified						
9/28/16	\$2,740	MT Prospect Park	IL		12:00			

Negotiated Sales

8

In a negotiated sale, the municipality negotiates the price for each maturity with the underwriter

Advantages

- Greater opportunity to engage investors
- Greater flexibility to respond to changing market conditions
- Ability to select underwriter(s)

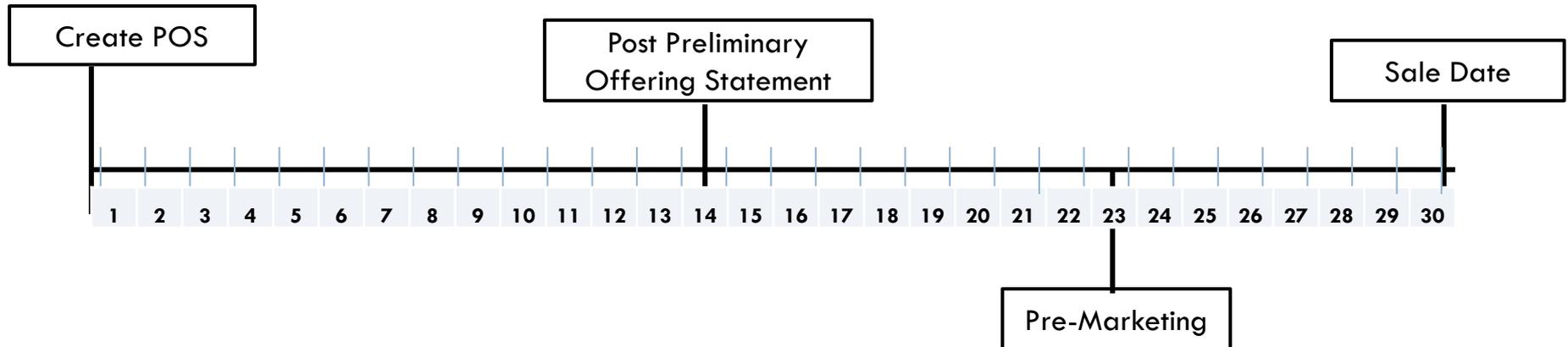
Disadvantages

- No comparable TIC to evaluate price
- May come with politics
- In-fighting among underwriters

Negotiated Pricing: Timeline

9

Example Timeline for Negotiated Sales Transaction once the Transaction has been Structured and Rated



Negotiated Underwriting Process

10

In a negotiated sale, the underwriter will begin thinking about investors and structure a week or two in advance

- Optimal structure to maximize investor interest
 - Premiums, Discounts, Term Bonds, Call Features
- Build momentum through investor indications
- Seeks to position the credit versus other deals in the market
- Create competition for bonds among investors

Marketing Process

11

Most negotiated sales follow a similar process...

- Market Update Call – 7-10 Days Prior to the issue
 - A. Market overview – supply/demand technicals
- Premarketing Period
 - A. POS Mailed
 - B. Credit Education
 - C. Pre-Marketing – price thoughts and establish initial rates
- Bond Pricing
 - A. Retail Order Period – Day 1 (if used)
 - B. Institutional Day – Day 2
- Underwriting Commitment – recommended changes and offer to buy bonds



Mesirow Financial[®]

Independent Minds.
Innovative Solutions.

Investment Management Capital Markets Consulting

Visit us on the Web at mesirowfinancial.com

Marc Hughes

415-623-7230

mhughes@mesirowfinancial.com

Jay Murphy

212-530-7661

smurphy@mesirowfinancial.com